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# Comments on DFARS Business Systems Proposed Rule July 15, 2014

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# Discussion Topics

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Proposed Rule is Premature

- GAO-12-88: Actions Needed to Improve DCAA's Access to and Use of Defense Company Internal Audits
- DCAA Audit Policies (MRDs) & CAM on Access to Internal Audits
- Contractor monitoring & reporting already exists

DCAA Role of an "Over-viewer"

DCMA vs. DCAA: Reconciling "reviews" vs. "audits" when government objective is exactly the same

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# Recommendations

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Proposed Rule should be withdrawn...monitoring & disclosing results already exists in DFARS.

or

Proposed Rule should be delayed pending results of GAO follow-up report on DCAA Access to Contractor Internal Audits.

Government (DPAP/DCAA/DCMA) need to reconcile vast differences between requirements to satisfy a DCAA audit vs. a DCMA review (applicable to DFARS Business Systems)…including why add an independent third party audit to 3 of 6 business systems

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# GAO-12-88: DCAA Access to Internal Audits

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- Both DCAA and company internal auditors have the critical responsibility of assessing the quality of company internal controls
- All of the companies reviewed generally followed the IIA's (Institute of Internal Auditors) Standards
  - Independence & Objectivity
  - Risk-based audit plans
  - Proficiency & Continuing Professional Development
  - Internal audit reports contained a clear explanation of the findings, critieria, condition, cause and effect and monitoring corrective actions.

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# GAO-12-88: DCAA Access to Internal Audits

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## Issues to Overcome

- GAO conclusion that 520 of 1,125 contractor internal audits had "some relevance"
- DCAA access to assess efficacy of internal controls and business systems vs. DCAA 2013 Report to Congress (reason for access to internal audits): "contractor took appropriate action to correct mischarges and irregularities, that a contractor is not overcharging the government and contractor is making appropriate disclosures" (FAR 52.203-13)
- Reconciling reliance on the work of others under auditing standards vs. a DCMA review
- DCAA policy that system is as of the start of the audit vs. the issuance date of the report (6 months after end of fiscal year)

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# DCAA Audit Policies for Access to Internal Audits

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DCAA

- MRD 13-PPS-007, 4/23/2013
- MRD 12-PPS-019, 8/14/2012
- CAM (Contract Audit Manual) 4-1000

2013 NDAA Section 832 (focus on efficacy of contractor internal controls/business systems)

- DCAA 2013 Report to Congress…too early to tell if achieving desired results

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# Contractor monitoring & reporting

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## DFARS Final Rule 2/24/2012

- Each business systems clause contains system-specific requirements for contractor monitoring and disclosure ….
- Property system…contractor shall perform periodic internal reviews and audits…significant findings/results shall be made available to the property administrator

## DFARS Business Systems “self monitoring”

- 252.242-7006 criterion #8
- 252.215-7002 (d)(4)(xiii)
- 252.242-7004 (d)(10)

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